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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

August 10, 2006

Sharon E. Carpinello, R.N., Ph.D.  
Commissioner  
New York State Office of Mental Health  
44 Holland Avenue  
Albany, New York 12229

Re: Pilgrim Psychiatric Center - Selected  
Financial Management Practices  
Report 2005-S-48

Dear Dr. Carpinello:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8, of the State Finance Law, we audited selected financial management practices of the Pilgrim Psychiatric Center (Pilgrim). Our audit covered the period April 1, 2002 through December 31, 2005.

**A. Background**

Pilgrim, located in West Brentwood, Suffolk County, is the largest inpatient center under the jurisdiction of the Office of Mental Health (OMH) that cares for and treats adults with significant psychiatric disabilities. It is also the only OMH-operated facility providing both inpatient and outpatient mental health services to adults from Nassau and Suffolk counties. As of March 31, 2005, Pilgrim served 629 inpatients, as well as 2,056 outpatients in 6 outpatient clinics located throughout Long Island. Pilgrim employed a staff of 1,568 and spent approximately \$112 million in fiscal year 2004-05.

**B. Audit Scope, Objective, and Methodology**

We audited Pilgrim's controls over selected financial management practices for the period April 1, 2002 through December 31, 2005. The objective of our audit was to determine whether internal controls over patient funds, purchasing, employee attendance, and pharmacy inventory provided reasonable assurance that assets were safeguarded and funds were expended appropriately.

To accomplish our objective, we interviewed Pilgrim officials and reviewed applicable laws, rules, regulations, policies, and procedures. To test controls over patient funds, we obtained a list of

Pilgrim patients who passed away from April 1, 2002 through August 19, 2005. We also obtained a "Transaction History" for each patient that gives details of all transactions involving that patient's account during the same period. We then determined whether and when the funds remaining in the patients' accounts had been transferred to the proper parties, or why the accounts had remained open at all. For our review of the Family Care Provider program, we judgmentally selected one patient assigned to each of Pilgrim's nine Family Care Specialists and reviewed financial documents to determine whether the providers had maintained the required financial records and whether the Specialists had adequately monitored the safeguarding of the funds. For our review of pharmacy inventory, we judgmentally selected 16 non-controlled medications and 4 controlled medications, and sought to determine whether the physical inventory for those medications at the main and satellite pharmacies on August 18, 2005, matched the entries on the inventory cards. For our review of controls over employee attendance, we selected 5 psychiatrists, 5 pharmacists and 15 other employees and performed a floor check on November 22, 2005, to verify that the employees were at their scheduled work locations. We also analyzed Pilgrim's purchases during fiscal years 2003 through 2005, and the first nine months of fiscal 2006, to identify any transactions that appeared questionable or inappropriate.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those procedures and operations included within our audit scope. Further, these standards require that we understand OMH's internal control systems and compliance with those laws, rules and regulations that are relevant to OMH's procedures and operations that are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

### **C. Results of Audit**

Our review determined that Pilgrim's internal controls over selected payroll and purchasing practices were generally adequate. We did identify a need to strengthen internal controls in the areas of patient funds and pharmacy inventory. We also determined that up to \$236,824 in savings could be realized through the use of the State's procurement credit card for small dollar purchases costing less than \$67.

## **1. Patient Funds**

OMH Policy (Policy) requires that, when a patient dies, the funds in his/her personal account may be used for burial expenses and reimbursement for services. If the account has an outstanding balance after burial expenses are paid, the facility should determine whether a full or partial cost rate was set. If a partial cost rate was set - in other words, the patient was charged a discounted rate for the services and residential housing - the facility should determine the difference between the full cost (retroactive to the date of admission) and the amount paid. The difference is to be billed to the patient's account. If funds still remain, the facility's Business Office should turn them over to the estate administrator.

According to the Policy, every reasonable effort should be made to legally dispose of the property of deceased patients. The Policy also states that funds or property with financial value still remaining at the facility for six months after a patient's death are to be turned over to the State Comptroller. According to OMH's Bureau of Patient Resources Procedure Manual (Procedure Manual), the Patient Resources Office or the Business Office should run a Patient Cash System Basic Patient Report in each calendar quarter, identifying discharged or deceased patients who have left unclaimed funds in their personal financial accounts.

Pilgrim officials provided us with a list of all patients who had passed away at the facility between April 1, 2002 and August 19, 2005, and noted any account balances that remained at the end of the period. Since 5 of the 34 patients on the list had died fewer than 6 months before August 19, 2005, Pilgrim was not required to close out their accounts prior to that date. Therefore, we focused our review on the remaining 29 patients in our sample. We determined that 10 of the 29 accounts had remained open beyond the 6-month requirement for periods ranging from 3 weeks to almost 3 years. The balances for 3 of these 10 accounts had been reduced to zero before August 19, 2005, but the remaining 7 were still open with balances ranging from \$20 to \$10,962. (In response to our draft report, OMH officials stated that the total value of 5 of the 7 accounts amounted to \$112, one account valued at \$2,300 has been processed and closed, and another account valued at \$10,962 continues open as part of a legal proceeding for the estate. They also advised that staff from OMH Patient Resources and Pilgrim's Business Office had worked and continue to work on the resolution of those accounts.) While we recognize reasonable efforts may have been made to dispose of the accounts in question, delays of more than six months after patients die increase the risk that their funds will be mishandled or stolen.

Some of Pilgrim's patients are under the care of a family care provider (provider) - a family that makes its home available to one or more patients functioning on a higher level and needing less-intensive care. To support each provider, Pilgrim assigns a Family Care Specialist (Specialist) who visits the family care residence monthly, orients the provider to the program, answers questions, reviews program requirements, monitors finances, and helps resolve problems. The Specialist also helps the provider maintain financial records and complete the necessary forms accurately. For example, providers must maintain an expenditure log that the Specialist reviews and signs off on monthly. In addition, if the provider spends \$50 or more from the patient's funds, supporting documentation such as purchase receipts must be maintained and reviewed by the Specialist.

Nine Specialists are assigned to monitor the 88 family care homes operating throughout Suffolk and Nassau counties. From the 323 individuals classified as family care patients as of October 6, 2005, we selected 9, and reviewed the manner in which the patient accounts had been monitored by the assigned Specialist. We also reviewed documentation to determine whether providers maintained the required financial records. Our review found that four providers did not maintain receipts for any of eight purchases costing \$50 or more that were recorded on the expenditure logs in 2005. The total value of these eight purchases was \$653.

Pilgrim's Specialists are required to document their monthly reviews of the finances of patients residing with family care providers by signing an official form. However, for calendar year 2004, there was no evidence the reviews had been performed in some months. For 2005, although all signoffs were completed on the official form, some Specialists had not noted that the provider had not retained receipts for those purchases valued at \$50 or more. (In response to our draft report, OMH officials acknowledged that receipts are sometimes not provided, and stated that the Director of Family Care will continue to conduct spot checks and periodic random sampling to ensure receipts are pursued for all such purchases.)

## **2. Pharmacy Inventory**

During our audit survey, we visited the main Pilgrim pharmacy. At that time, we noted that Pilgrim attempted to track the receipt and disbursement of medications by using inventory cards for each medication. On August 18, 2005, we did a physical inventory of 4 controlled medications (a category that includes narcotics, stimulants, depressants, hallucinogens, and anabolic steroids) and 16 non-controlled medications. We found that our count did not always match the information on the inventory cards at both the main and secondary pharmacy locations.

The inventory card at the main pharmacy for 25-mg. kits of Risperidone showed 125 kits on hand; however, we counted just 116 kits. Since each of these kits costs \$222, the nine missing kits represented a total cost of \$1,998 to Pilgrim. We also found shortages in the counts of two medications sampled at the secondary pharmacy location: one of two 50-mg. kits of Risperidone, costing \$445, as well as two of seven 30-mg. units of Aripiprazole, costing a total of \$2,546. In response to our preliminary findings, Pilgrim officials stated that most of the medications had been removed by the Pharmacy Aide to a working area before updating the inventory card. (In response to our draft report, Pilgrim officials explained that the pharmaceuticals in question had been removed to a "working" area by pharmacy aides in order to fill prescriptions, and the medications were not actually missing. They further stated that they had implemented tighter controls over the documentation of medications removed to the working area.)

The four controlled medications we sampled were accounted for properly. Access to this type of medication is restricted at each location to just one person, and an inventory is taken each month. However, such a high level of control is not exercised over access to the other medications. Pharmacy officials pointed out that pharmacy staff have access to the storage areas, and suggested they may have removed medications without subtracting the number from the records. Pilgrim does not take regular inventory of non-controlled medications in the pharmacy; in fact, the Director of Pharmacy could not remember the last time an inventory was taken. Pilgrim officials replied they plan to implement periodic sampling against inventory cards as a check to ensure accountability. (In

response to our draft report, OMH officials stated that they plan to conduct an annual physical inventory in the Pharmacy.)

**3. Payroll**

We selected a sample of 25 Pilgrim employees and conducted a floorcheck at their scheduled work locations on November 22, 2005, to verify they were at work as scheduled. We performed this floorcheck, in part, because we had received an allegation that psychiatrists and pharmacists at Pilgrim were also working second jobs and were leaving Pilgrim before the end of their regular shifts without charging accrued leave. At the time of our floor check, we accounted for all but one of the 25 sampled employees. (In response to our draft report, Pilgrim officials provided us with documentation accounting for the whereabouts of the individual.)

**4. Procurement**

We performed a data analysis of purchases made at Pilgrim during the period April 1, 2002 through December 31, 2005. We found that Pilgrim processed 4,229 vouchers for small dollar purchases costing less than \$67, which potentially could have been paid with the State procurement credit card. It costs the State roughly \$67 to process one voucher in contrast to a cost of \$11 for processing a credit card transaction. Therefore, Pilgrim could have saved up to \$236,824 (4,229 purchases times the difference of \$56) if the small dollar purchases were paid with the procurement credit card.

Fiscal Year	Total Vouchers Under \$67 Which Potentially Could Have Been Paid with Credit Card	Total Vouchers Paid	Percent of Total Vouchers Paid
2003	960	9,952	10%
2004	909	8,424	11%
2005	1,391	8,712	16%
2006 (first nine months)	969	5,753	17%
Total	4,229	32,841	13%

**Recommendations**

1. *Recommendation deleted.*
2. *Make every effort to dispose of all funds remaining in the account of a deceased patient within six months of the patient's death.*
3. *Remind family care providers to maintain documentation purchases made on behalf of patients that cost \$50 or more.*
4. *Require family care Specialists to do a better job of monitoring purchases made on behalf of patients.*

5. *Perform a periodic physical inventory of non-controlled medications stored in pharmacy locations. Reconcile any differences with inventory records.*
6. *Recommendation deleted.*
7. *Encourage the use of a procurement credit card for small dollar purchases.*

We provided draft copies of this report to OMH and Pilgrim officials for their review and comment. OMH officials generally agreed with the report's recommendations, indicating actions planned or taken to implement them. A complete copy of OMH's response is included as Appendix A. Appendix B contains State Comptroller's Comments, which address matters contained in OMH's response.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the New York State Office of Mental Health shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Sheila Emminger, Albert Kee, Stuart Dolgon, Adrian Wiseman, Tania Atria, and Jean Estime.

We wish to thank the management and staff of OMH and the Pilgrim Psychiatric Center for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

William P. Challice  
Audit Director

cc: Dean Weinstock, Executive Director of Pilgrim  
Lisa Ng, Division of the Budget  
James Russo, OMH Office of Investigation and Audit



Sharon E. Carpinello, RN, Ph.D.  
Commissioner

44 Holland Avenue  
Albany, New York 12229

May 2, 2006

William P. Challice  
Audit Director  
Division of State Services  
State Audit Bureau, 21<sup>st</sup> Floor  
Office of the State Comptroller  
123 William Street  
New York, NY 10038

Dear Mr. Challice:

The Office of Mental Health has reviewed the draft audit report entitled, Pilgrim Psychiatric Center, Review of Financial Management Practices (2005-S-48). Our comments to the findings and recommendations contained in the report are enclosed.

The Office of Mental Health appreciates the Office of the State Comptroller's efforts to recommend improvements in our operations.

Many thanks for your continued help and cooperation.

Sincerely yours,

A handwritten signature in black ink, appearing to read "B. Cohn".

Barbara Cohn  
Executive Deputy Commissioner

Enclosure



PILGRIM PSYCHIATRIC CENTER  
RESPONSE TO OFFICE OF THE STATE COMPTROLLER'S  
DRAFT REPORT 2005-S-48  
FINANCIAL MANAGEMENT PRACTICES

**OMH Overall Comments**

The Office of Mental Health has reviewed the findings and recommendations in the draft report on OSC's audit of Financial Management Practices of Pilgrim Psychiatric Center. The audit discussed certain areas requiring improvement and for those recommendations with which OMH agrees, appropriate corrective action will be taken.

While appreciative of OSC's effort in identifying areas requiring improvement, OMH would like to note that this report was prepared on the exception basis. As such, it did not provide the readers with an overview of the mostly positive findings made during this five-month audit. Accordingly, OMH believes the final report should mention in the Results of Audit section that the \$18,476 of total audit findings, excluding the questionable amount of potential cost savings described in finding # 4, Procurement, represents less than 0.005 percent of approximately \$450 million in total expenditures made at Pilgrim PC during the 44-month audit period of April 1, 2002 to December 31, 2005.

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**Comment**  
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In addition to those OSC recommendations with which we agree, OMH cannot respond to the procurement area recommendation until OSC provides details on the exceptions noted in the draft report. Both the procurement and payroll areas were excluded from OSC's preliminary findings.

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**Comment**  
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**OMH Comments to Specific OSC Report Sections**

Background - Pilgrim PC spent \$45.2 million in State funds in fiscal year 2004-2005.

This section should be amended to indicate that Pilgrim PC spent approximately \$112 million in fiscal year 2004-05.

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**Comment**  
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Patient Funds - Deceased patient funds balances not disposed of timely.

Pilgrim Psychiatric Center processed approximately \$5.7 million in the Patient Funds Account during the audit period. Of this amount, \$13,487 or 0.24 percent in 7 accounts was identified as not having been resolved in a timely manner. The total value of five of the accounts was \$112. The sixth account, valued at \$2,300, has been processed and closed, and the seventh account, containing \$10,962 continues open as part of a legal proceeding for an estate. It should be noted that the 6-month timeframe on disposal of patient assets is a policy, not a regulation.

\*See State Comptroller's Comments, Page 13

The draft report indicated the auditors saw no documentation that Pilgrim representatives had reviewed the patient accounts to determine the disposition of the funds. In fact, staff from OMH Patient Resources and Pilgrim's Business Office, had been and continue to work on the resolution of those accounts.

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**Comment**  
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In the draft report OSC also stated that "Based upon our own calculations, no leftover funds would have been available to the patients' estates for these accounts after recoupment for services". Pilgrim officials have not been provided these calculations and therefore cannot comment. As previously noted, staff from the Patient Resources Office and Pilgrim's Business Office had not reached that conclusion as they were still working to properly resolve the accounts.

Patient Funds - Missing documentation of purchases for Family Care patients.

A new Director of Family Care was appointed and OMH is pleased that OSC noted that all signoffs of reviews had been completed for 2005 while in 2004 reviews hadn't been performed as timely.

OSC also commented that certain providers had not retained receipts for those purchases of \$50 or more. Although providers make efforts to obtain receipts, they are sometimes not provided. Regardless, the Director of Family Care will continue to conduct spot checks and periodic random sampling to ensure that receipts are pursued for all such purchases.

Pharmacy Inventory - Physical inventory should be performed, differences should be noted on inventory cards.

Pilgrim Psychiatric Center expends over \$8 million on pharmaceuticals annually. The total expended amount for pharmaceuticals for the audit period noted is over \$18 million. While OSC cites "shortages" amounting to \$4,989, Pilgrim officials explained in the preliminary response and at the closing conference that the pharmaceuticals in question had been removed to a "working" area by pharmacy aides in order to fill prescriptions and the medications were not actually "missing", but just located in a different work area. Pilgrim officials have implemented tighter controls over the documentation of medications removed to the working area, which is secured and has limited access. Pilgrim PC also plans to conduct an annual physical inventory in the Pharmacy.

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**Comment**  
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Payroll - Investigate circumstances surrounding the unaccounted-for Psychiatrist.

OSC conducted a floor check and payout on Wednesday, November 23, 2005 starting at 3:30pm on the eve of the Thanksgiving holiday. Pilgrim officials are pleased that 24 of the 25 employees involved were immediately accounted for and handed paychecks by the auditors on that date. OSC concluded that one psychiatrist (who was retiring and working their last day on the job) was not

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**Comment**  
6

present at her work station at 3:30 p.m. According to OSC, the psychiatrist refused to provide her location to an OSC auditor after being phoned directly by the auditor. It should be noted that the psychiatrist's supervisor was not contacted by OSC and that the psychiatrist received the phone call directly from an OSC auditor not familiar to her.

Upon later learning of the situation, Pilgrim representatives provided OSC with documentation via a fax that the psychiatrist had seen patients and had written prescriptions on both November 22 and 23, 2005. Moreover, Pilgrim representatives provided OSC with documentation of the check out process for this employee for November 23, 2006. This included a document showing the employee turned in her key and picture identification card, and submitted a written request to mail her final paycheck.

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**Comment**  
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Procurement - Procurement card purchases could have saved the State \$327,656 by reducing the cost of paperwork.

Pilgrim officials have not received any prior notice (e.g., through a preliminary finding) or supporting documentation regarding this finding and therefore cannot properly respond. It should be noted the data collected by OSC appears to include numerous payments that would not qualify for payment with a credit card; therefore, the potential cost savings cited by OSC could be significantly overstated. Without additional information, OMH is not in a position to comment further.

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**Comment**  
2

### **Pilgrim's responses to OSC Recommendations**

#### OSC Recommendation No. 1

Follow up a patient death with timely calculation to determine whether a full or partial rate had been set for the cost of housing and services provided by the State. If the patient's account has an outstanding balance, determine how Pilgrim can recoup some of the funds for the services it provided.

#### Pilgrim's response

Pilgrim's Business Office will continue to coordinate efforts with the Patient Resource Office to ensure patient's funds are disposed of in a timely manner. All reasonable efforts will be made to obtain receipts for burial and other personal expenses from the patient's family to assess balances left in the account. Pilgrim's Business Office has and will continue to work in concerted effort with Patient Resources to obtain calculations so the State is reimbursed for services provided to the patient.

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**Comment**  
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#### OSC Recommendation No. 2

Turn over to the State Comptroller all funds still remaining in the account of deceased patient six months after the patient death.

#### Pilgrim's response

The Business Office in conjunction with Patient Resource Office will make every reasonable effort to dispose of deceased patient's funds in accordance with the Patient Resources Office six-month policy.

**OSC Recommendation No. 3**

Remind family care providers to maintain documentation purchases made on behalf of patients that cost \$50 or more.

**Pilgrim's response**

Pilgrim's Family Care Director will remind Family Care Providers to maintain documentation of purchases made on behalf of patients that cost \$50 or more and will continue to work with Family Care Specialists to monitor the documentation of patient's funds and ensure that Family Care providers obtain receipts for purchases of \$50 or more.

**OSC Recommendation No. 4**

Require Family Care Specialists to do a better job of monitoring purchases made on behalf of patients.

**Pilgrim's response**

Pilgrim's Family Care Director will conduct spot checks and random samplings to ensure Family Care Specialists documentation is complete. Pilgrim officials are pleased that OSC found all signoffs complete in the Family Care Program documentation in 2005.

**OSC Recommendation No. 5**

Perform a periodic physical inventory of non-controlled medications stored in the Pharmacy locations. Reconcile any differences with inventory cards.

**Pilgrim's response**

Pilgrim officials will perform an annual inventory of non-controlled medications at the Pharmacy locations and will implement tighter controls to document the movement of medications from inventory to working areas in the Pharmacy locations by pharmacy staff.

**OSC Recommendation No. 6**

Investigate the circumstances surrounding the unaccounted-for employee cited in this report. If necessary, take appropriate action to recover any inappropriate payment for time she was not at her assigned work site.

**Pilgrim's response**

As previously stated, Pilgrim officials have provided documentation to OSC to substantiate the employee worked on both days cited in the report. Psychiatrists employed at Pilgrim and at many other OMH facilities have workloads that cover patients on a number of wards, not a specific worksite. Furthermore, the materials sent to OSC included documentation which corroborates that the employee was working on her last day prior to retirement, November 23.

* <b>Comment</b> 6
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**OSC Recommendation No. 7**

Use a procurement credit card for small purchases.

Pilgrim's response

The data provided in the draft report does not have sufficient information to respond appropriately. It appears to include all payments under \$67 made by the facility and it is not possible to determine how many of these purchases would have been eligible for payment with a credit card.

Pilgrim staff use procurement cards extensively and have extended the use of procurement cards to the Maintenance Department and to its largest outpatient clinic.

*
<b>Comment</b>
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**State Comptroller's Comments:**

1. We revised the Results of Audit section to include areas where we found Pilgrim's internal controls to be adequate.
2. Regarding procurement, we discussed the results of our preliminary analysis of those small dollar purchases costing less than \$67 that could have been paid for with the procurement credit card with OMH at the audit exit conference. Then, based on OMH's response to our draft report, and further discussion with Pilgrim, we revised our determination as reflected in the report. Regarding payroll, although we did not provide OMH officials with written preliminary findings relating to our November 22, 2005 floor check, we verbally conveyed the results to Pilgrim soon thereafter, received additional information from them, and updated OMH on the remaining outstanding issues during our exit conference.
3. We revised our report to include federal funds as a part of Pilgrim's total expenditures for fiscal year 2004-2005.
4. Pilgrim provided additional documentation which shows that Pilgrim's Business Office works with the Patient Resources Office to obtain calculations so the State is reimbursed for services provided to the patient. As a result, we deleted Recommendation 1.
5. While it is not possible, after the fact, to verify if these medications were removed to a working area, we are pleased that Pilgrim has implemented tighter controls over the removal of such medications to a working area.
6. After receipt of OMH's response to our draft report, we received supporting documentation that accounted for the whereabouts of the psychiatrist at the time of our floor check. As a result, we deleted the details of this finding and the corresponding Recommendation 6.